

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

L-02 H-01 EA-06 TAR-01 PA-01 PRS-01 USIA-06 /099 W

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R 261911Z FEB 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8689

INFO USMISSION GENEVA

USMISSION EC BRUSSELS

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 02984

E.O. 11652: GDS

TAGS: EFIN ETRD UK

SUBJECT: UK EXPORT SUBSIDY IN FORM OF INFLATION
INSURANCE

REF: LONDON 2753, LONDON 2898, LONDON 2926

1. SUMMARY: WE BELIEVE PLANNED UK INSURANCE AGAINST EXCESSIVE INCREASE IN COST OF EXPORTS OF CAPITAL GOODS (REFTELS) IS AN EXPORT SUBSIDY WITHIN MEANING OF GATT ARTICLE XVI AND, AS EXPORT STIMULATION MEASURE, MAY ALSO BE INCONSISTENT WITH OECD TRADE PLEDGE. IF WASHINGTON AGENCIES CONCUR, WE SUGGEST EARLY REPRESENTATION. ACTION REQUESTED: INSTRUCTIONS AS TO WHETHER WE SHOULD MAKE THIS APPROACH AND, IF SO, WHETHER INCONSISTENCY WITH OECD TRADE PLEDGE AS WELL AS GATT SHOULD BE MENTIONED. END SUMMARY.

2. WE RAISED PROPOSED BRITISH MEASURES WITH PETER
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PRESTON (DEPUTY SECRETARY DEPARTMENT OF TRADE)

FEBRUARY 25 WHEN WE SAW HIM ON ANOTHER MATTER. PRESTON
MADE THREE POINTS:

FIRST, ASKED IF BRITISH THOUGHT THE NEW ARRANGEMENT
WAS CONSISTENT WITH THE GATT, PRESTON SAID IT IS
CERTAINLY AS ACCEPTABLE UNDER THE GATT AS THE FRENCH
PLAN ON WHICH IT IS MODELLED. PRESTON WENT ON TO SAY
THAT THE BRITISH GOVERNMENT HAS MADE "STRENUOUS"
EFFORTS TO GET THE FRENCH TO WITHDRAW THEIR SCHEME
OVER THE PAST FEW YEARS, BUT THESE EFFORTS HAVE BEEN
MADE BILATERALLY AND WITHIN THE CONTEXT OF THE EC,
NOT IN THE GATT.

SECOND, PRESTON SAID BRITISH EMBASSY IN
WASHINGTON' INSTRUCTED TO EXPLAIN THE NEW
SCHEME TO STATE AND TREASURY AND THE EXIMBANK, HAD
ENCOUNTERED MIXED INITIAL REACTIONS.

THIRD, PRESTON SAID BRITISH SCHEME COULD BECOME
OPERATIONAL "QUITE SOON," EVEN BEFORE LEGISLATION IS
ADOPTED. PRESTON EXPLAINED THAT UNDER PARLIAMENTARY
SYSTEM, GOVERNMENT IS SO SURE THAT MEASURES OF THIS
KIND WILL BE APPROVED BY PARLIAMENT THAT IT COULD IN
THIS CASE ALLOW ECGD TO ACCEPT CONTRACTS EMBODYING
THE NEW PROVISION IN VERY NEAR FUTURE, PRIOR TO APPROVAL.

3. WE HAVE NO DOUBT THAT THE BRITISH PLAN WAS DEvised,
AS VARIOUS OFFICIALS HAVE TOLD US, IN ORDER TO MEET
FRENCH COMPETITION. HOWEVER PLAN APPEARS TO US IN-
CONSISTENT WITH SPIRIT AND PROBABLY LETTER OF ARTICLE
XVI OF GATT AND POSSIBLY ALSO INCONSISTENT WITH OECD
TRADE PLEDGE. ASIDE FROM THESE QUESTIONS OF CON-
SISTENCY, THE TIMING OF THE BRITISH ANNOUNCEMENT
STRIKES US AS UNFORTUNATE, COMING AS IT DOES SOON AFTER
THE CONCLUSION OF A BRITISH AGREEMENT WITH THE SOVIET
UNION PROVIDING EXPORT CREDIT ON VERY FAVORABLE RATES
(AGAIN IN ORDER TO MEET FRENCH COMPETITION) AND AT A
TIME WHEN THE GENTLEMEN'S AGREEMENT AND RENEWAL OF THE

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AMEMBASSY ROME

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 02984

OECD TRADE PLEDGE ARE UNDER DISCUSSION.

4. ANOTHER TRADE DEPARTMENT OFFICIAL WHOM WE ASKED WHETHER UK PLANS TO REPORT MEASURE UNDER GATT ARTICLE XVI (1) HAS NOT YET RESPONDED. WE DID NOT RAISE QUESTION OF CONSISTENCY WITH OECD TRADE PLEDGE BECAUSE OF SOME UNCERTAINTY RE APPLICABILITY OF PLEDGE AND IN VIEW OF POSSIBLE DELICACY OF SITUATION RE PLEDGE RENEWAL.

5. BRITISH CLEARLY EXPECT ADVERSE COMMENT FROM US AND PERHAPS OTHER COUNTRIES, AND ABSENCE OF EARLY COMMENT, UNDER INSTRUCTION, UNDOUBTEDLY WILL BE CONSTRUED AS INDICATING RELAXED ATTITUDE ON PART OF US. THEREFORE, IF WASHINGTON AGENCIES AGREE MEASURE IS INCONSISTENT WITH GATT, IT APPEARS TO US ADVISABLE TO MAKE A FORMAL, LOW KEY OBJECTION TO THE BRITISH PLAN
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BEFORE IT BECOMES LAW AND, IN VIEW OF THE FACT THAT IT MAY BE PUT INTO EFFECT BEFORE THE LEGISLATION IS ADOPTED, AS SOON AS POSSIBLE. WE BELIEVE THAT WE SHOULD AT LEAST MAKE A RECORD TO THE EFFECT THAT WE BELIEVE THIS FORM OF EXPORT SUBSIDY IS NOT CONSISTENT WITH THE GATT OR WITH OECD PLEDGE (IF THIS IS US VIEW).

6. OUR BASIC POINT SHOULD BE US OBJECTION TO EXPORT SUBSIDIES THAT CONTRAVENE THE GATT, AND WE SHOULD NOT APPEAR TO DIFFERENTIATE BETWEEN THE GOVERNMENTS PRO-POSING SUCH MEASURES. WE DO NOT KNOW WHAT POSITION

THE US HAS TAKEN WITH REGARD TO THE FRENCH SCHEME,
WHICH APPARENTLY HAS BEEN IN EXISTENCE FOR MANY YEARS,
BUT IN ANY APPROACH TO THE BRITISH, WE SHOULD BE PRE-
PARED TO CITE ACTION WE HAVE TAKEN WITH REGARD TO THE
FRENCH ARRANGEMENT. A SIMILAR CURRENT OBJECTION TO
THE FRENCH SCHEME MIGHT ALSO BE CONSIDERED, PERHAPS
CITING AS A REASON THE RECENT ANNOUNCEMENT OF THE
BRITISH PLAN, WHICH WAS CLEARLY ADOPTED IN IMITATION
OF THE FRENCH, AND NOTING OUR CONCERN THAT OTHER
COUNTRIES MAY FOLLOW THE BRITISH EXAMPLE. WASHINGTON
AGENCIES MAY ALSO WISH TO CONSIDER AN APPROACH TO
THE ITALIANS, WHO WE ARE TOLD HAVE ADOPTED SIMILAR
MEASURES TO MEET FRENCH COMPETITION.
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